STATE OF DELAWARE OFFICE OF AUDITOR OF ACCOUNTS

DEPARTMENT OF HEALTH AND SOCIAL SERVICES CHILDCARE SUBSIDY PROGRAM

AMERICAN RECOVERY AND REINVESTMENT ACT §1512 REPORTING

AGREED-UPON PROCEDURES ENGAGEMENT
AS OF DECEMBER 31, 2009

FIELDWORK END DATE: APRIL 22, 2010 REPORT ISSUANCE DATE: JUNE 14, 2010

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STATE OF DELAWARE OFFICE OF AUDITOR OF ACCOUNTS

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Independent Accountant's Report on Applying Agreed-Upon Procedures

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We have performed the procedures enumerated below, which were agreed to by the Governor's Stimulus Solutions Group (Stimulus Group) and the Department of Health and Social Services (DHSS), Division of Social Services (DSS). The procedures were performed solely to assist the specified parties in evaluating the *American Recovery and Reinvestment Act of 2009* (ARRA) §1512 Report (§1512 Report) for the Child Care and Development Block Grant (CCDBG), CFDA¹ 93.713² as of December 31, 2009. The award for the CCDBG totaled \$4,545,736 with reported federal expenditures at December 31, 2009, of \$3,779,480. Management is responsible for DSS's compliance with applicable Federal and State requirements.

The CCDBG is designed to provide economic stimulus to the nation while furthering the Office for the Administration of Children and Families' mission to promote the economic and social well being of children, youth, families, and communities. Objectives under the CCDBG Act are to make grants to States, Territories, Tribes, and tribal organizations for child care assistance for low-income families and to: (1) allow each State maximum flexibility in developing child care programs and policies that best suit the needs of children and parents within such State; (2) promote parental choice to empower working parents to make their own decisions on the child care that best suits their family's needs; (3) encourage States to provide consumer education information to help parents make informed choices about child care; (4) assist States to provide child care to parents trying to achieve independence from public assistance; and (5) assist States in implementing the health, safety, licensing, and registration standards established in State regulations. The CCDBG program was selected through a comprehensive statewide process that was based on risk indicators and quantitative factors.

This agreed-upon procedures engagement was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States and the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

¹ Code of Federal Domestic Assistance

² SAI S9051302 (State Application Identifier)

Our procedures were as follows:

1. Examine the §1512 report and supporting documents to ensure the data was properly and adequately reviewed by management prior to submitting it to the federal agency, the information reported was accurate, and the report was submitted timely.

DHSS management did not adequately review the December 31, 2009, §1512 report and did not properly maintain supporting documentation. We were able to verify the amounts reported to Delaware Financial Management System (DFMS) screen shots without exception. The initial amounts reported were not accurate as the first submission of the §1512 report contained a mathematical error resulting in an understatement of expenditures of \$205,440. This error was discovered by the Delaware Office of Management and Budget (OMB) and was corrected and resubmitted to Federalreporting.gov by DHSS on February 2, 2010. The December 31, 2009, §1512 report was due by January 15, 2010. DHSS submitted the initial report timely on January 12, 2010. However, DHSS did not submit the ARRA §1512 Report Approval Record to OMB until March 10, 2010. See *Finding and Recommendation #1 and #2* of this report for further details.

2. Ensure the calculation of the estimate of the number of jobs created and retained by the project is in compliance with the Council of Economic Advisers memorandum dated May 2009.

The calculation of the number of jobs reported on the December 31, 2009, §1512 report was not in compliance with the most recent guidance issued by the Federal Office of Management and Budget (Federal OMB). According to the Federal OMB Memorandum M-10-08 issued on December 18, 2009, the jobs estimate is calculated by dividing the number of hours worked by the number of full-time hours in the quarter. Only jobs funded by the ARRA program are to be counted. DHSS reported 12 jobs on the December 31, 2009, §1512 report. However, DHSS was unable to substantiate whether the wages of any of the reported jobs were funded by ARRA. See *Finding and Recommendation #3* of this report for further details.

3. Ensure the information provided for subcontracts or subgrants include the data elements required to comply with the *Federal Funding Accountability and Transparency Act of 2006*.

DSS did not have any subcontractors or sub-grants; therefore, this procedure did not apply.

4. Select and test a sample of ARRA expenditures to ensure the funds were spent for the reported purpose, in accordance with State and Federal procurement laws, and were a reasonable and appropriate use of taxpayer money.

We tested program expenditures totaling \$2,983,956 by examining supporting documentation and reviewing the eligibility of the program expenditures. Our procedures disclosed no instances of noncompliance that resulted in findings and recommendations.

We were not engaged to and did not conduct an examination with the objective of expressing an opinion on compliance with specified laws. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

R. Thomas Wagner, Jr., CFE, CGFM, CICA Auditor of Accounts Office of Auditor of Accounts

April 22, 2010

Procedure #1

Examine the §1512 report and supporting documents to ensure the data was properly and adequately reviewed by management prior to submitting it to the federal agency, the information reported was accurate, and the report was submitted timely.

Finding #1- Supporting Documentation for 1512 Submission

Criteria

The Delaware OMB 1512 Reporting Instruction Manual states:

Prior to submission to the Federal website, the Primary Recipient is responsible for ensuring that no material errors or omissions exist. A material omission is defined as "instances where required data is not reported or reported information is not otherwise responsive to the data requests resulting in significant risk that the public is not fully informed as to the status of a Recovery Act project or activity." A significant reporting error is defined as "instances where required data is not reported accurately and such erroneous reporting results in significant risk that the public will be misled or confused by the recipient report in question." The Prime Recipient must ensure that there are no material omissions or significant reporting errors in each quarterly report.

In addition, the State of Delaware OMB/DOA ARRA of 2009 Internal Controls Guideline dated November 24, 2009, states, "Organizations must set up a process for review of data quality to ensure information submitted for reporting the use of ARRA funds is accurate and timely."

Condition

DHSS, DSS did not maintain the DFMS reports that were used to support the expenditures reported on the \$1512 report. The amounts reported could not be verified for accuracy. In addition, the first submission of the \$1512 report for the quarter ended December 31, 2009, contained a mathematical error that was identified by Delaware OMB, which was then corrected and resubmitted to Federalreporting.gov. DSS originally reported expenditures of \$3,574,040 instead of \$3,779,480, resulting in an understatement of \$205,440. Proper management review of the supporting documentation to the report may have caught this error before it was submitted.

Cause

Lack of management oversight and inadequate review of the report and supporting documentation.

Effect

The December 31, 2009, §1512 report lacks accountability and transparency and contained a significant reporting error. Continued non-compliance with ARRA reporting requirements could result in termination of the award, reclaiming of funds, and potential punitive actions.

Recommendation

In order to increase the agency's accountability and transparency, DHSS, DSS should retain all documentation (DFMS reports, tracking spreadsheets, etc.) to support the information reported on the §1512 report.

Entity's Response

DSS used DFMS screen prints (as opposed to DFMS reports) as source documentation for preparing the 1512 report which was provided to the audit staff. In the future DFMS reports will be used to support the 1512 reports and electronic copies of the relevant reports will be available for inspection by auditors as back up documentation. Regarding the math mistake on the original submission of the December 1512 report this was the result of an inadvertent clerical error, not a lack of management oversight. The error cited in the condition was caused by a last minute change in the entire report format by the Federal Government, this included places where DSS would verify totals. DSS had already completed and reviewed the report in the prior format. When informed of the change, DSS was advised to just copy and paste from the old format. This technique did not work and DSS was forced to reenter all the information which led to the math error. After giving his initial approval to the report, the OMB Director of Policy and External Affairs found the error which was corrected on 2/2/10 when the Federal Government next allowed access to the report.

Finding #2- Approval Record and Management Review

Criteria

The *Delaware OMB 1512 Reporting Instruction Manual* states, "Prime recipients and approved delegated sub-recipients must also complete and have appropriate signed approval from the agency head for each report field prior to uploading to the federal reporting system. A form for this purpose can be located at http://www.omb.delaware.gov/arra/index.shtml and a copy is to be emailed to OMB_ARRA1512@state.de.us or faxed to (302) 739-5661."

In addition, the State of Delaware OMB/DOA ARRA of 2009 Internal Controls Guideline dated November 24, 2009, states, "Organizations must set up a process for review of data quality to ensure information submitted for reporting the use of ARRA funds is accurate and timely."

Condition

DHSS, DSS did not submit the ARRA 1512 Report Approval Record to OMB for the reporting period ending December 31, 2009, as required by the *Delaware OMB 1512 Reporting Instruction Manual* until March 10, 2010, at OMB's request. In addition, DHSS's supporting documents for the §1512 report did not have evidence of management review and approval.

Cause

DHSS, DSS was not aware of the requirement to send the ARRA 1512 Report Approval Record.

Effect

The purpose of this approval form is to ensure that there are no material omissions or significant reporting errors in the quarterly report. Failure to certify the accuracy of the report does not ensure the reported information is complete and accurate and may leave errors undiscovered.

Recommendation

DHSS, DSS should ensure the quality of the reported data by adequately reviewing the information before submitting it to the federal government and certify the review by submitting the ARRA 1512 Report Approval Record to OMB.

Entity's Response

Many changes were occurring to the 1512 reporting process during its implementation. Due to this dynamic coupled with an oversight, DSS missed the notification from Delaware's OMB and did not obtain the report certification from OMB. DSS did submit the certification form to OMB on March 10th for the December 1512 report and will do so for future reports.

Procedure #2

Ensure the calculation of the estimate of the number of jobs created and retained by the project is in compliance with the Council of Economic Advisers memorandum dated May 2009.

Finding #3- Jobs Estimate Not Calculated Using OMB Guidance

Criteria

OMB memos M-09-21, M-10-08 and May 2009 memo from the Council of Economic Advisors, states that "The estimate of the number of jobs required by the Recovery Act should be expressed as 'full-time equivalents' (FTE), which is calculated as total hours worked in jobs created or retained divided by the number of hours in a full-time schedule, as defined by the recipient." The federal guidance was updated and amended on December 18, 2009, and defines jobs created or retained as "those funded in the quarter by the Recovery Act. Jobs funded with non-Recovery Act funds will not be counted unless they will be reimbursed. Jobs funded partially with Recovery Act funds will only be counted based on the proportion funded by the Recovery Act."

Condition

The jobs reported on the §1512 submission for the quarter ended December 31, 2009, were not calculated using guidance provided by Federal OMB. Three of the twelve jobs reported were counted because educational courses needed to keep the existing employees were paid for with ARRA funds. DHSS was unable to substantiate whether the wages of any of the reported jobs were funded by ARRA.

Cause

Guidance given to prime recipients from Federal OMB and the Council of Economic Advisors was not used by DHSS, DSS in order to calculate jobs in their §1512 submission. The support for the jobs estimate is insufficient to determine if the jobs were funded by ARRA.

Effect

The jobs reported in the §1512 submission may have been overstated.

Recommendation

DSS should comply with the procedures to calculate the number of jobs as explained in OMB memos M-09-21, M-10-08, and May 2009 memo from the Council of Economic Advisors.

Entity's Response

The Division of Social Services (DSS) disagrees with the condition cited in this finding as it believes it appropriately followed supplemental guidance issued by the Administration for Children and Families (ACF), Child Care Bureau, the federal agency which administers the Child Care and Development Fund (CCDF) as outlined in the following points.

- The Section 5.7 of the Federal OMB guidance issued on December 18, 2009, it states: "Prime recipients are required to generate estimates of job impact by directly collecting specific data from . . . vendors on the total FTE resulting from a sub-award . . . " Also, in the earlier Section 5.1 of the December guidance, OMB states in the final sentence: "Recipients must follow this guidance with respect to the reporting requirements under Section 1512 and must also comply with program and agency specific requirements."
- ACF issued revised program/agency specific 1512 report guidance to prime recipients of CCDF ARRA funds. Those revised guidelines can be found at the following web site:

http://www.acf.hhs.gov/programs/ccb/initiatives/arra/1512/arra_1512.doc

Page 30 of the revised ACF guidance states: "The Lead agency needs to collect information from . . . vendors about jobs created and retained and has discretion for determining the method of the collection . . . To collect information on the number of jobs created or retained through ARRA funds, the Lead Agency may choose to: Contact a vendor directly " The footnote #3 on page 30 indicates that the CCDF revised 1512 guidelines were issued with complete awareness of the December 18, 2009 OMB directions. In addition, the revised guidance issued by ACF goes on to discuss the calculations that could be used to estimate jobs created or retained as set forth in the December 18, 2009 OMB instructions and the ACF guidance states on page 31: "The purpose of this worksheet is to provide Lead Agencies with a tool for calculating the number of jobs created or retained with ARRA funds . . . The use of this worksheet is optional "

- DSS directly contacted the applicable vendors that received ARRA funds and collected the created and retained jobs data and reported it on the 1512 report. By following ACF's CCDF specific guidance, DSS acted in compliance with the appropriate federal guidelines. The federal OMB December 18th guidelines require recipients of ARRA funds to directly contact vendors and comply with program and agency specific instructions. ACF's specific program instructions favor direct contact with vendors and allow the state agency the option of using a specified calculation. DSS used the discretion and options available to the CCDF lead agencies within the federal guidelines.
- NOTE: DSS recomputed the number of jobs that would have been reported using the Federal formula. The result was that 12 jobs would have been reported, which is the same number DSS reported on the 1512 Report. Therefore, there was no material over or under statement caused by using the direct contact methodology.
- Nonetheless, the Division of Social Services (DSS) will not include, in future reports, employees taking educational courses required to retain their jobs paid by ARRA. DSS will also use the job calculation procedure outlined in the recommendation.

Accountant's Comment

The condition cited in the finding made no mention of the method of collection of jobs data, but rather that DHSS was unable to substantiate whether the wages of the reported jobs were funded by ARRA.

DISTRIBUTION OF REPORT

This report is intended solely for the information and use of the Stimulus Group and DHSS, DSS and should not be used by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited. This report, as required by statute, was provided to the Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, Department of Finance, and the Office of the State Treasurer.

Copies of this report have been distributed to the following public officials:

The Honorable Jack A. Markell, Governor, State of Delaware

The Honorable Matthew Denn, Lieutenant Governor, State of Delaware

The Honorable Russell T. Larson, Controller General, Office of the Controller General

The Honorable Joseph R. Biden, III, Attorney General, Office of the Attorney General

The Honorable Ann S. Visalli, Director, Office of Management and Budget

The Honorable Thomas J. Cook, Secretary, Department of Finance

Ms. Valerie Watson, Acting Director, Division of Accounting, Department of Finance

The Honorable Velda Jones-Potter, Treasurer, Office of the State Treasurer

Mr. Robert Scoglietti, Director of Policy and External Affairs, Office of Management and Budget

Officials of Audited Entity

The Honorable Rita Landgraf, Secretary, Department of Health and Social Services

Ms. Valencia Beaty, Director, Division of Management Services, Department of Health and Social Services